

Message Text

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INFO OCT-01 ISO-00 AGR-05 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 DODE-00 PA-01 PRS-01 PM-04

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R 311255Z OCT 75

FM AMEMBASSY BELGRADE

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INFO ZZEN/AMCONSUL ZAGREB 2389

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E.O. 11652: NA

TAGS: ECON YO

SUBJ: ASSESSMENT OF YUGOSLAV ECONOMIC TRENDS

REF: BELGRADE 5643

SUMMARY: FACED WITH DIFFICULT ECONOMIC AND THEREFORE POLITICAL PROBLEMS, PARTY AND GOVT LEADERSHIP ARE FURTHER INTENSIFYING EFFORT TO PROVIDE DISCIPLINE AND DIRECTION TO TURN ECONOMY AROUND. MAJOR SPEECHES RECENTLY BY DOLANC, SEFER AND SPILJAK, WHILE MAKING DOWNBEAT APPRAISAL OF CURRENT DEVELOPMENTS, RULE OUT ANY MAJOR INCREASE IN STATE ROLE IN ECONOMY FOR TIME BEING. STRATEGY SEESE TO BE FOR LCY AND TU'S TO STEP UP THEIR ACTIVITIES IN COORDINATING ECONOMY AND PROVIDING MUSCLE TO ASSURE THAT ECONOMIC DECISIONS ARE CARRIED OUT. FOR 1976 YUGOSLAVS INTEND BROAD-BASED PROMOTIONAL CAMPAIGN TO BOOST LABOR PRODUCTIVITY AND STRONGER PRICE POLICY TO DAMPEN INFLATIONARY PRESSURES. END SUMMARY.

1. YUGOSLAV LEADERS NOW FOCUSING MAJOR ATTENTIONHMLECOFJMY.

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THEY INTERPRET 1975 ECONOMINTTRENDS IN DOWNBEAT WAY WITH LONG-

STACXINLINFLATION, INVESTMENT, AND BALANCE OF PAYMENTS PROBLEMS COMPLICATED BY DROP IN PRODUCTION BELOW PLAN LEVELS, VERY WIW PRODUCTIVITY GROWTH, AND POSSIBLE DROP IN REAL WAGES. SEFER IN OCT 14 REPORT TO FEDERAL ASSEMBLY NOTED YUGOSLAV GROWTH TARGETS FOR 1975 WOULD NOT BE ACHIEVED, AND THAT REAL PERSONAL INCOME HAD DECLINEE BY 2 PERCENT IN THE FIRST 8 MONTHS OF 1975. STRUCTURE OF YUGOSLAV INVESTMENT CONTINUES TO BE UNSATISFACTORY WITH EFFORTS TO CHANNEL FUNDS INTO PRIORITY INDUSTRIES LAGGING. SEFER POINTED OUT THAT IN THE FIRST HALF OF 1975 ONLY SLIGHTLY LESS HAD BEEN INVESTED IN LOW-PRIORITY TEXTILE INDUSTRY THAN HIGH PRIORITY FERROUS METALLURGY, WHILE TEXTILE INVESTMENTS WERE 90 PERCENT GREATER THAN IN OIL INDUSTRY AND 2-1/2 TIMES LARGER THAN IN COAL AND COKE. PICTURE NOT ALL GLOOMY, HOWEVER, SINCE INFLATION MODERATING SLIGHTLY, TRADE BALANCE IMPROVED AND EXTERNAL LIQUIDITY STILL GOOD.

2. WHILE YUGOSLAVIA'S BASIC STABILITY IS NOT IN DOUBT, UNFAVORABLE TRENDS CREATE SOME TOUGH CHOICES FOR YUGOSLAV POLICY-MAKERS AS THEY PLAN FOR 1976. THEY NOW MUST WEIGH MORE CAREFULLY GROWTH, INVESTMENT, AND EMPLOYMENT PRIORITIES IN THEIR EFFORTS TO COME UP WITH EFFECTIVE STABILIZATION MEASURES. TRADEOFFS MAY BE DIFFICULT BETWEEN POLITICAL AND ECONOMIC NECESSITIES WITH CONTRAST BETWEEN PRESSURES TO MAINTAIN EMPLOYMENT GROWTH AND NEED TO STIMULATE LABOR PRODUCTIVITY PARTICULARLY SHARP.

3. PRODUCTIVITY.

A. STIMULATION OF LABOR PRODUCTIVITY IS KEY ELEMENT IN 1976 PLANS WITH LCY AND TU LEADERSHIP INCREASINGLY VOCAL CONCERNING NEED TO BOOST PRODUCTIVITY THROUGH REWARDING INDIVIDUAL INITIATIVE AND ENDING "WAGE LEVELING."

B. DOLANC IN OCT 17 SPEECH TO METALWORKERS COMPETITION IN NOVI SAD PRESENTED ALMOST CALVINISTIC VIEW OF YUGOSLAVIA'S PRODUCTIVITY PROBLEMS, SAYING THEY OCCUR "BECAUSE WE DO NOT WORK ENOUGH," LACK OF DISCIPLINE, IRRESPONSIBLE CONDUCT, SLOPPINESS, WASTE AND PARASITISM. HE CRITICIZED WAGE LEVELING AS "FETTERING INITIATIVE" AND ATTACKED PROPONENTS OF WAGE LEVELING AS "DEMAGOGUES" WHO BELIEVE IN THESIS OF "EQUAL STOMACHS," ADDING THAT WOULD MAKE SENSE ONLY IF WORKERS HAD EQUAL BRAINS AND EQUAL HANDS. SALVATION, ACCORDING TO DOLANC, LIES IN RECOGNIZING SKILLED LIMITED OFFICIAL USE

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WORKERS AND SPECIALIZED CADRE AS SOURCES OF PRODUCTIVITY AND REWARDING THEM APPROPRIATELY FOR THEIR WORK.

C. TRADE UNION LEADER SPILJAK IN OCT 16 STATEMENT ALSO SOUNDS TRUMPET FOR BATTLE TO INCREASE PRODUCTIVITY, CLAIMING THE COUNTRY'S LOW PRODUCTIVITY GROWTH "DOES NOT STEM FOR INADEQUATE TECHNICAL EQUIPMENT." SPILJAK MENTIONED PRODUCTIVITY LOSSES DUE TO WORKER ABSENTEEISM AND EXCESSIVE SICK LEAVES, BUT IMPLIED ORGANIZATIONAL FAILINGS WERE MAIN CAUSE OF YUGOSLAVIA'S

PRODUCTIVITY PROBLEMS AND CLAIMED THAT TU'S CAN ASSIST ENTERPRISES TO BETTER ORGANIZE WORK.

D. IN CONVERSATION WITH AMBASSADOR, GOVERNOR OF NATIONAL BANK, COLANOVIC, REFERRING TO DOLANC'S COMMENT ON "EQUAL STOMACHS," SAID YUGOSLAVIA HAS CONCENTRATED ON SOCIAL WELFARE ASPECTS OF EMPLOYMENT AND PRODUCTIVITY DECISIONS BUT THE COUNTRY NOW MUST PROVIDE GREATER INCENTIVES TO INDIVIDUAL EFFORT AND REWARD INDIVIDUAL PRODUCTIVITY INCLUDING MANAGERIAL TYPES.

HE ADDED, ENDING WAGE LEVELING WILL BE DIFFICULT AND MAY TAKE TWO TO THREE YEARS TO ACCOMPLISH. A PART OF 1975'S LOW PRODUCTIVITY GROWTH IS DUE TO THE HIGH RATE OF EMPLOYMENT (ABOUT 5 PERCENT). THE DILEMMA OF TRADEOFFS BETWEEN EMPLOYMENT AND PRODUCTIVITY WAS IGNORED BY DOLANC AND SPILJAK, BUT COLANOVIC NOTED CURRENT PRODUCTIVITY EMPHASIS COMES FROM TOP LEVELS OF LCY AND TU'S AND GOVT, WHILE EMPLOYMENT DECISIONS ARE MADE BY ENTERPRISES RESPONDING BASICALLY TO POLITICAL AND SOCIAL PRESSURES OF LOCAL OPSTINAS. BECAUSE THOSE SEEKING EMPLOYMENT ARE FAMILY MEMBERS OR NEIGHBORS OF THE ENTERPRISE'S WORKERS THERE IS STRONG BIAS IN ENTERPRISE DECISIONMAKING TOWARD CREATING JOBS FOR THEM.

E. LCY AND TU MEMBERSHIP AND GOY EMPLOYEES ARE ALSO BEING URGED TO GREATER PRODUCTIVITY ON BEHALF OF EFFICIENCY, ECONOMIC STABILIZATION, AND PROBABLY DISCIPLINE.

COMMENT: WE SEE SCOPE FOR MARGINAL GAINS IN PRODUCTIVITY AS CONSEQUENCE LCY-TU EXHORTATIONS AND PRESSURES. HOWEVER, STRUCTURE OF YUGOSLAV LABOR FORCE MAKES MAJOR SHORT-TERM GAINS UNLIKELY. REPORTEDLY 1.6 MILLION YUGOSLAV WORKERS STILL LIVE ON SMALL HOLDINGS AND DIVIDE THEIR TIME BETWEEN FACTORY JOBS AND WORKING THEIR LAND. NOT ONLY DOES THIS LEAD TO ABSENTEEISM, IT ALSO RESULTS IN LESS-THAN-OPTIMUM ON-THE-JOB PERFORMANCE.

4. PRICES.

A. YUGOSLAVIA'S ECONOMIC LEADERESHIP IS ADVOCATING TOUGHER PRICE POLICY FOR 1976 THAT MAY FEATURE INCREASED RESISTANCE TO LIMITED OFFICIAL USE

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PRICE HIKES AT ENTERPRISE LEVEL FROM LOCAL LCY AND TU ORG-ANIZATIONS AND TOUGHER GOY POLICIES AT FEDERAL LEVEL THAT WILL REQUIRE STRICT ECONOMIC JUSTIFICATION FOR REQUESTED PRICE INCREASES.

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B. IN CANDID REMARK, COLANOVIC TOLD AMBASSADOR "WE MADE MISTAKES" IN 1974 AND 1973 BY FACTORING INTO PLANS FULL AMOUNT OF ANTICIPATED INFLATION -- AS A RESULT, ENTERPRISES BELIEVED THEY AUTOMATICALLY COULD RAISE PRICES BY THAT AMOUNT. COLANOVIC SAID THIS MISTAKE WILL NOT BE REPEATED IN 1976 AND ONLY A SMALL "CARRYOVER INFLATIONARY FACTOR" OF ABOUT 6 PERCENT WILL BE PERMITTED IN 1976 PLANS.

C. ACCORDING TO SEFER, PRICE POLICY NEXT YEAR SHOULD TAKE THE FORM OF A SOCIAL ACCORD SETTING OUT SPECIFICALLY CONDITIONS AND CRITERIA UNDER WHICH PRICES CAN BE CHANGED. HE INDICATED ENTERPRISES WILL NOT BE PERMITTED TO SOLVE FINANCIAL DIFFICULTIES BY SIMPLY RAISING PRICES AS HAS OCCURRED IN THE PAST. COLANOVIC SPECIFICALLY TOLD AMBASSADOR THAT IN EVALUATING REQUESTS FOR PRICE INCREASES IN 1976 GOY WILL NOT ALLOW THAT COMPONENT OF PRICE RISE DESIGNED TO FINANCE FUTURE INVESTMENT UNLESS THE INVESTMENT ITSELF FITS INTO COUNTRY'S PRIORITY SECTORS OR PLANS. COMMENT: IN PREVIOUS TWO YEARS YUGOSLAV PRICE HIKES HAVE SEEMINGLY HAD SIGNIFICANT "ADMINISTERED" COMPONENT AND PRICES IS AN AREA WHERE LCY, TU AND GOVT LEADERSHIP MAY BE EFFECTIVE, AT LEAST OVER SHORT RUN. THERE IS EVIDENCE THAT INFLATION HAS MODERATED SOME-

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WHAT IN THIRD QUARTER AS RESULT OF SIMILAR BUT WEAKER POLITICAL-SOCIAL PRESSURES UNDERTAKEN IN SUMMER. ELIMINATING FROM 1976 PLANS FULL ANTICIPATED INFLATION SEEMS IMPORTANT STEP SINCE EXPERIENCE HAS SHOWN IT CAN BE SELF-FULFILLING PROPHECY.

5. 1976 WILL FEATURE FURTHER EFFORTS TO RESTRAIN THE GROWTH OF

INCOME AND EXPENDITURES OF SOCIAL/POLITICAL COMMUNITIES. SEFER IMPLIED THAT IN FORMULATING NEXT YEAR'S ECONOMIC POLICY, SOCIAL CONSUMPTION WOULD BE SUBORDINATED TO THE REQUIREMENTS OF NEW INVESTMENT, COMPLETION OF KEY DEVELOPMENT PROJECTS, AND ACQUISITION OF NEW TECHNOLOGY. COLANOVIC SAID THAT NEXT YEAR SOCIAL CONSUMPTION WILL BE PERMITTED NOMINAL GROWTH OF ONLY ABOUT 12.5 PERCENT. COMMENT: RESTRAINING GROWTH OF SOCIAL/POLITICAL REVENUE AND EXPENDITURES IS HIGH PRIORITY, BUT MAY BE DIFFICULT TO ACCOMPLISH. IN 1975 THEIR REVENUE GROWTH GREATLY EXCEEDED PREVIOUS AGREED-UPON LIMITS AND CONSEQUENTLY ALL REPUBLICS AND PROVINCES HAVE AGREED TO RETURN EXCESS REVENUE TO THE "ECONOMY" BUT NOWHERE IS IT HAPPENING.

6. COMPLICATING PICTURE ARE CHRONIC COORDINATION DIFFICULTIES IN THIS DECENTRALIZED SOCIETY THAT MAKE POLICY FORMULATION, AGREEMENT, AND FINAL IMPLEMENTATION DISTINCT AND TIME-CONSUMING EXERCISES. DOLANC IN OCT 17 SPEECH RAISES DIRECTLY SERIOUS ISSUE THAT AGREED-UPON POLICY TOO OFTEN REMAINS UNIMPLEMENTED. SAYING "WE CANNOT GO ON LIKE THIS ANY LONGER," DOLANC SAYS THOSE WHO FAIL TO RESPECT DECISIONS MUST BE HELD ACCOUNTABLE FOR THEIR ACTIONS. YUGOSLAV LEADERSHIP, AT LEAST FOR PRESENT, REJECTS INCREASED STATE ROLE IN MANAGING ECONOMY AND CONTINUES TO INSIST ON IMPLEMENTATION OF 1974 CONSTITUTION AND GREATER TRANSFER OF STATE AUTHORITY TO "ASSOCIATED LABOR". THUS IN PRACTICE, LCY, TU'S, SAWPY AND OTHER POLITICAL/SOCIAL INSTITUTIONS WILL ATTEMPT TO MORE ACTIVELY AND EFFICIENTLY GUIDE "ASSOCIATED LABOR" IN MAKING ECONOMIC DECISIONS AND ATTEMPT PROVIDE THE MUSCLE REQUIRED TO ENSURE ECONOMIC DECISIONS ARE CARRIED OUT.

7. YUGOSLAVIA'S ECONOMIC PROBLEMS, ALTHOUGH NO GREATER THAN ELSEWHERE, MAY NOW HAVE CAUSED SOME GRASS ROOTS DISSATISFACTION THAT GOES BEYOND GRUMBLING, AND CARRIES POLITICAL IMPLICATIONS. A POSSIBLE EXPRESSION OF THIS DISSATISFACTION MAY BE CRITICAL COMMENTS DIRECTED AT SEFER'S SPEECH BY MEMBERS OF YUGOSLAV ASSEMBLY WHO FOUND IT OVERLY "OPTIMISTIC." A CROATIAN DELEGATE, SILJKO HUBER, LIMITED OFFICIAL USE

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CALLED FOR MORE DETAILED INFORMATION DOCUMENTING SPECIFICALLY THE PERSONS WHO ARE NOT IMPLEMENTING ECONOMIC POLICY AND WHO ARE RESPONSIBLE FOR ECONOMIC FAILURES "SO THAT IT DOES NOT OCCUR, THAT INDIVIDUAL SENIOR OFFICIALS IN THE ECONOMY PUT THE BLAME FOR THEIR OWN WEAKNESSES..." ON THE SYSTEM AS A WHOLE. COMMENT: BASIC DILEMMA FOR LEADERSHIP IS TO PROVIDE FOR COORDINATED RATIONAL REGULATION OF ECONOMY WITHOUT CENTRALIZING POLITICAL AND ECONOMIC AUTHORITY. ON ECONOMIC FRONT IMPORTANT QUESTION FOR BOTH SUBSTANCE AND PROCESS OF POLICY FORMULATION, AGREEMENT, AND IMPLEMENTATION IS WHETHER LCY, TU'S, SAWPY AND OTHER SOCIAL/POLITICAL ORGANIZATIONS THEMSELVES HAVE THE REQUISITE DISCIPLINE, SKILLS, AND/OR POLITICAL-ECONOMIC STRUCTURE NECESSARY TO EXERT SUSTAINED LEADERSHIP AND COORDINATION AT THE LEVEL OF MICRO-

ECONOMIC DECISIONS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, ECONOMIC TRENDS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BELGRA05747
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750378-1125
From: BELGRADE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975103/aaaaacbe.tel
Line Count: 279
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 BELGRADE 5643
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 02 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 JUL 2003 by MartinML>; APPROVED <12 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ASSESSMENT OF YUGOSLAV ECONOMIC TRENDS
TAGS: ECON, YO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006